

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name CLINTON AREA TRANSIT SYSTEM	County CLINTON
Audit Date 9/30/05	Opinion Date 2/10/06	Date Accountant Report Submitted to State: 3/31/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) LAYTON & RICHARDSON, P.C.			
Street Address 1000 COOLIDGE RD	City EAST LANSING	State MI	ZIP 48823
Accountant Signature 		Date 3/31/06	

CLINTON AREA TRANSIT SYSTEM
CLINTON COUNTY
ST. JOHNS, MICHIGAN
FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005
AND
INDEPENDENT AUDITORS' REPORT



Layton & Richardson, P.C.
Certified Public Accountants

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Layton & Richardson, P.C.

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Clinton Area Transit System
Charlotte, Michigan

We have audited the accompanying financial statements of the business-type activities of the Clinton Area Transit System as of and for the year ended September 30, 2005, which collectively comprise the Organization's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Clinton Area Transit System. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Clinton Area Transit System as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis and the required supplementary information on pages 3 through 9 are not a required part of the basic financial statement but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted primarily of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Clinton Area Transit System's basic financial statements. The accompanying schedule of expenditures is for purpose of additional analysis as required by audits of states, local governments and non-profit organizations, and is not part of the general purpose financial statements of the Clinton Area Transit System. The supplemental financial information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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In accordance with *Government Auditing Standards*, we have also issued a report dated February 10, 2006 on our consideration of the Clinton Area Transit System's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report considering the results of our audit.

Layton & Richardson, P.C.
Certified Public Accountants

East Lansing, Michigan
February 10, 2006

Clinton Area Transit System Management's Discussion and Analysis

The goal of this discussion and analysis is to provide highlights to the Clinton Area Transit System's (CATS) financial activities for the Fiscal Year ended September 30, 2005. Readers are encouraged to read this section in conjunction with the accompanying basic financial statements.

Financial Highlights

- **Assets:** CATS assets exceeded its liabilities by \$105,316. All of this amount may be used to meet ongoing transit obligations to citizens and creditors. The total assets increased by \$104,771. The majority of the increase was due to purchasing one new bus, Bus 9, during the Fiscal Year at a cost of \$55,699 funded through federal Section 5309 at 80% and the state at 20%. Additionally, CATS purchased several new computers and received an initial setup of a computerized dispatch system for \$23,001 funded through federal Section 5311 at 80% and the state at 20%. CATS had \$2,306 in unreserved cash assets on September 30th. This low level of cash assets reflects CATS' operating without a millage. This is \$961 more than September 30, 2004.
- **Ridership** decreased from FY 2004's ridership of 42,571 to 40,708, down 4.4%. The total operating miles increased from the FY 2004's total of 297,076, to FY 2005's 298,887, or .6%. Because of an aging fleet and a significant decrease in operating assistance from the state, CATS limited additional ride requests to already established routes. This resulted in less people being transported.
- CATS has funding from FY 2005 (Section 5309), Z11 to purchase 19 buses, GPS, maintenance, communication equipment and a storage building. MDOT has not yet signed the contracts authorizing the expenditure of these funds which total \$1,487,285 which are 80% Federal and 20% State. Contracts are expected to be executed by May 2006.
- As of March 28, 2006, CATS has funding from FY 05 (Section 5311) to purchase 2 buses and several radios.

Overview of the Financial Statements

The annual report includes this management discussion and analysis report, the independent auditor's report and the basic financial statement of CATS, which include notes that explain in more detail some of the information in the financial statements. This report is presented in a format as required by GASB Statement No. 34.

Clinton Area Transit System Management's Discussion and Analysis

As an Act 196 Transit Authority, CATS provides demand-response service for residents of Clinton County and for people who work in Clinton County. Transportation purposes are medical, employment, recreation and education.

Required Financial Statements

The financial statements report information on CATS using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Assets includes all of CATS' assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations of CATS creditors (liabilities). It also provides the basis for evaluating the capital structure of CATS and assessing the liquidity and financial flexibility of CATS.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Fund Net Assets. This statement measures the success of CATS' operations over the past year and can be used to determine whether CATS has successfully recovered all of its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did the cash come from, what was the cash used for, and what was the change in the cash balance during the reporting period.

Financial Analysis of Clinton Area Transit System

The Statement of Net Assets and the Statement of Activities provides the information to determine how CATS did financially during FY 2005. The net assets, or the difference between assets and liabilities, and the changes in them can indicate whether financial health is improving or deteriorating over time. However, other non-financial factors such as changes in economic conditions, service area and new or changed government legislation also need to be considered in determining CATS' financial health.

Clinton Area Transit System
Management's Discussion and Analysis

Net Assets

CATS' Condensed Statement of Net Assets and Statement of Revenue, Expenses, and Changes in Fund Net Assets are presented in the following Tables. Comparative financial data is included for FY 2004 and FY 2005.

Table 1
Condensed Statement of Net Assets
FY 2004 – FY 2005

	FY 2004	FY 2005
Current Assets	\$ 22,351	\$109,777
Fixed Assets	<u>139,431</u>	<u>\$156,775</u>
Total Assets	<u>\$161,782</u>	<u>\$266,552</u>
Current Liabilities	\$ 16,923	\$73,864
Note Payable to Bank	40,500	\$71,900
Other Current Liabilities	<u>23,099</u>	<u>\$15,472</u>
Total Current Liabilities	\$ 80,522	\$161,236
Invested in Capital Assets		
Net of Debt	\$ 0	\$ 0
-Restricted	0	\$ 0
-Unrestricted	<u>\$ 81,260</u>	<u>\$105,316</u>
Total Net Assets	<u>\$161,782</u>	<u>\$266,552</u>

Clinton Area Transit System
Management's Discussion and Analysis

Table 2
Condensed Statement of Revenue, Expenses,
And Changes in Fund Net Assets
FY 2004 – FY 2005

	FY 2004	FY 2005
Operating Revenue	\$160,442	\$160,337
Meals-On-Wheels Revenue	714	0
Non-operating Revenue	<u>305,282</u>	<u>\$399,098</u>
Total Revenue	\$466,438	\$559,435
Depreciation Expense	\$ 114,831	\$ 61,356
Other Operating Expenses	<u>446,613</u>	<u>474,023</u>
Total Expenses	\$ 561,444	\$535,379
Change in Net Assets(Retained Earnings)	-\$95,004	+\$ 24,056
Beginning Net Assets (Retained Earnings)	<u>\$176,264</u>	<u>\$81,260</u>
Ending Retained Earnings (Retained Earnings)	<u>\$ 81,260</u>	<u>\$105,316</u>

The Statement of Net Assets shows the change in financial position of net assets. The Depreciation expense of \$61,356 is a non-cash expense, which represents the reduction in the value of vehicles and office equipment. Due to the nature of CATS' capital, this cost is not considered in the day-to-day fiscal management process because of the capital grants available through State and Federal funding.

CATS' operating revenue decreased \$105 which is an insignificant change. Non-operating revenue increased by approximately 30.7%, or \$93,816.

Eligible Operating expense has increased by 6.1%, or \$27,411 which would be expected considering the fluctuation in fuel prices.

Clinton Area Transit System Management's Discussion and Analysis

Capital Assets

The acquisition of new vehicles is generally funded by (80%) Federal sources and (20%) State match from the Michigan Department of Transportation. This funding source also allows CATS to use all of its operating revenues on daily service and not tie up those incomes with debt payments for equipment. This allows for CATS to maintain its fleet at an average life of 5 (five) years.

Twelve of CATS' fourteen vehicles are eligible for replacement under Michigan Department of Transportation rules. The FY 2005 Section 5309 vehicle grant will allow CATS to replace all eligible vehicles. This funding is expected to be available by May, 2006.

During the Fiscal Year 2005, a new bus was purchased (Bus 9).

**Table 3
Capital Assets
FY 2004 – FY 2005**

	FY 2004	FY 2005
Buses	\$408,488	\$464,187
Van & Minivans	205,088	\$205,088
Office Furniture & Equipment	<u>17,257</u>	<u>39,258</u>
Subtotal	\$630,833	\$708,533
Less: Accumulated Depreciation	(491,402)	(551,758)
Net Property & Equipment	<u>\$139,431</u>	<u>\$156,775</u>

Debt Administration

CATS has no long term debt.

As of September 30, 2005, the significant debt issue for CATS was a Note Payable to Firstbank of St. Johns of \$71,900. As of the date of this writing, this note has been paid down to \$0. This reduction in debt was possible as a result of CATS passing a millage in August, 2005.

Clinton Area Transit System Management's Discussion and Analysis

Economic Factors

Many of the funds that subsidize public transportation operations are appropriated by both State and Federal governments.

Federal funds have increased as detailed in the table below:

Fiscal Year	Budget Total	Subsidy Amount	Subsidy Percentage	Net Change in Dollars	Net Change in Percentage
FY 02	\$435,000	\$46,448	10.95%		
FY 03	\$467,500	\$51,191	10.95%	\$4,743	0.0%
FY 04	\$421,500	\$46,154	10.95%	\$(5,037)	0.0%
FY 05	\$402,460	\$49,905	12.40%	\$3,751	1.45%
FY 06	\$564,737	\$84,710	15.00%	\$34,805	2.6%
FY 07	\$883,071	\$132,460	15.00%	\$47,750	0.0%

State funds were reduced significantly from FY 04, a drop of 3.80% as detailed in the table below:

Fiscal Year	Budget Total	Subsidy Amount	Subsidy Percentage	Net Change in Dollars	Net Change in Percentage
FY 02	\$ 435,000	\$199,457	45.85%		
FY 03	\$ 467,500	\$204,765	43.80%	\$ 5,308	-2.05%
FY 04	\$ 421,500	\$178,027	42.24%	\$(26,738)	-1.56%
FY 05	\$ 402,460	\$154,696	38.44%	\$(23,331)	-3.80%
FY 06	\$ 564,737	\$221,685	39.25%	\$ 66,989	+8.1%
FY 07	\$ 883,071	\$346,605	39.25%	\$124,920	0.0%

Clinton Area Transit System Management's Discussion and Analysis

The \$66,989 net change in dollars from FY 05 to FY 06 is largely due to the increase in expenditures instead of subsidy percentage.

CATS had an August, 2005 millage pass on the primary election. The millage was passed by 1,865 votes, with 3,852 voting yes and 1,987 voting no.

The millage for 2005 was levied at .14 which was sufficient to pay back the line of credit and provide the same level of bus service into FY 06/07. A levy of .20 will be necessary to significantly expand service to the residents of Clinton County. Currently, priority is given to medical trips, persons with disabilities, and senior citizens. Many areas of the county receive very limited service.

Contact Information

This financial report is designed to provide our customers and creditors with a general overview of CATS' finances and demonstrate CATS' accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact the General Manager for Clinton Area Transit System at 304 N. Brush Street, St. Johns, Michigan, 48879. The telephone number is (989) 224-8127.

CLINTON AREA TRANSIT SYSTEM

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2005

ASSETS

CURRENT ASSETS

Cash	\$	2,306
Accounts receivable		7,923
Due from other governmental units		95,990
Prepaid expenses		3,558
TOTAL CURRENT ASSETS		<u>109,777</u>

CAPITAL ASSETS

Vehicles		669,275
Equipment		39,258
TOTAL CAPITAL ASSETS		<u>708,533</u>
Less: accumulated depreciation		<u>(551,758)</u>
Net Capital Assets		<u>156,775</u>
TOTAL ASSETS	\$	<u><u>266,552</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES

CURRENT LIABILITIES

Accounts payable	\$	73,864
Line of credit		71,900
Accrued payroll		12,771
TOTAL CURRENT LIABILITIES		<u>158,535</u>

LONG-TERM LIABILITIES

Accrued vacation and sick pay		<u>2,701</u>
TOTAL LIABILITIES		<u>161,236</u>

NET ASSETS

RETAINED EARNINGS

Unreserved		<u>105,316</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u><u>266,552</u></u>

See accompanying notes to financial statements.

CLINTON AREA TRANSIT SYSTEM
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	PROGRAM REVENUES				BUSINESS TYPE ACTIVITIES
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRI- BUTIONS	CAPITAL GRANTS AND CONTRI- BUTIONS	
FUNCTIONS/PROGRAMS					
Primary Government					
Business-Type Activities	\$ <u>535,379</u>	\$ <u>218,496</u>	\$ <u>262,234</u>	\$ <u>78,700</u>	\$ <u>24,051</u>
General Revenues					
Unrestricted investment earnings					<u>5</u>
Total General Revenues and Transfers					<u>5</u>
Change in Net Assets					24,056
NET ASSETS, OCTOBER 1					<u>81,260</u>
NET ASSETS, SEPTEMBER 30					<u>\$ 105,316</u>

See accompanying notes to financial statements.

CLINTON AREA TRANSIT SYSTEM
STATEMENT OF INCOME AND RETAINED EARNINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

OPERATING REVENUES	\$ 160,337
OPERATING EXPENSES	<u>535,379</u>
LOSS FROM OPERATIONS	<u>(375,042)</u>
NONOPERATING REVENUES	
Federal sources	117,747
State sources	223,187
Local sources	<u>58,164</u>
TOTAL NONOPERATING REVENUES	<u>399,098</u>
NET INCOME	24,056
RETAINED EARNINGS, OCTOBER 1	<u>81,260</u>
RETAINED EARNINGS, SEPTEMBER 30	\$ <u><u>105,316</u></u>

CLINTON AREA TRANSIT SYSTEM
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from customers	\$ 161,867
Payment to suppliers	(160,812)
Payment to employees	(319,652)
NET CASH USED IN OPERATING ACTIVITIES	<u>(318,597)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Federal grants	45,302
State grants	184,692
Local contributions	58,159
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	<u>288,153</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from line of credit	83,100
Payment of line of credit	(51,700)
Purchase of capital assets	(78,700)
Proceeds from capital contributions	78,700
NET CASH FLOWS PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>31,400</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest received	<u>5</u>
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NET INCREASE IN CASH AND CASH EQUIVALENTS 961

CASH , OCTOBER 1 1,345

CASH , SEPTEMBER 30 \$ 2,306

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY(USED IN) OPERATIONS

Loss from operations	\$ (375,042)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities	
Depreciation	61,356
Increase in accounts receivable	1,529
Decrease in prepaid expense	(335)
Increase in accounts payable	(6,361)
Decrease in accrued payroll	2,944
Decrease in accrued vacation and sick pay	(2,688)
	<u>(318,597)</u>
	<u><u>\$ (318,597)</u></u>

CLINTON AREA TRANSIT SYSTEM
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2005

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Clinton Area Transit System was established under the applicable laws of the State of Michigan Public Act 196, as amended, to operate a transportation system within the County of Clinton on October 18, 2001. Public Act 196 known as the "Public Transportation Authority Act" authorizes the formation of public transportation authorities with certain powers and duties as separate and distinct political subdivisions within the State of Michigan.

Prior to the formation of the Clinton Area Transit System, public transportation services were provided to the residents of Clinton County by a nonprofit organization know as Community Resource Volunteers. To facilitate the transition of providing transportation to the residents of Clinton County, vehicles and other related equipment purchased by Community Resource Volunteers with federal and state assistance were transferred to the Transit during the fiscal year ended September 30, 2002.

The Clinton Area Transit System is eligible to receive federal and state financial assistance in the form of operating and capital grant funding to support its operation, expand marketing, and specialized services, and replace buses and other equipment. The Clinton Area Transit System provides demand response services within Clinton County. The Transit also provides special services on a contractual basis to nonprofit agencies within the County.

A. Reporting Entity

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of the Clinton Area Transit System. The Transit System has followed the guidelines of the Governmental Accounting Standards Board's Statement No. 14, and has determined that no entities should be consolidated into its general purpose financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements.

B. Basis of Presentation

The accounts of the Clinton Area Transit System are organized on the basis of a fund which is considered a separate accounting entity. The operation of the fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. The Transit resources are allocated to and accounted for in the individual fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund in the financial statements in this report is described as follows:

C. Enterprise Fund

This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

CLINTON AREA TRANSIT SYSTEM
NOTES TO FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2005

NOTE 1: **ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –**
Continued

D. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e. the statements of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary organization of the Clinton Area Transit System.

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services and privileges provided 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. All taxes are reported as general revenue.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from provided services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expense for enterprise funds and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Transit has elected not to follow subsequent private-sector guidance.

E. Measurement Focus, Basis of Accounting, and Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. In the individual fund statements and schedules, the proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are reported when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

CLINTON AREA TRANSIT SYSTEM
NOTES TO FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2005

NOTE 1: **ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES –**
Concluded

F. Cash

The Clinton Area Transit System cash accounts consist of checking and savings accounts. The balances in the cash accounts are available to meet current operating requirements.

G. Receivables

Receivables have been recognized for all significant amounts due the Transit. Management feels all accounts receivable are collectible therefore, no allowance for bad debt has been recorded.

H. Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. The proprietary fund is accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with the activity are included on the balance sheet.

Capital assets are recorded at cost, or if donated, at fair market value at the date of donation. Expenses that materially extend the useful life of existing assets are capitalized. Depreciation of all exhaustible fixed assets used by the proprietary fund is charged as an expense against operations. Accumulated depreciation is reported on the proprietary fund balance sheet. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets.

The estimated useful lives are:

ASSET	DEPRECIABLE LIFE
Vehicles	4-7 years
Equipment	4-7 years

I. Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions that affect the reporting of certain assets, liabilities, revenues, and expenditures. Actual results may differ from estimated amounts.

CLINTON AREA TRANSIT SYSTEM
NOTES TO FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2005

NOTE 2: CASH

The Clinton Area Transit System is authorized to invest any of its funds in one or more of the following:

- A. Bonds, securities and other obligations of the United States or any agency or instrumentality of the United States.
- B. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, saving bank, or credit union whose deposits are insured by an agency of the United States government and which it maintains a principal office or branch office located in this state under the laws of state or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 o6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21,145 and 21,146 of Michigan Compiled Laws.
- C. Commercial paper rated at time of purchase within the three highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- D. The United States government or federal agency obligations repurchase agreements.
- E. Bankers acceptances of United States banks.
- F. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental agency's are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21,143, to secure deposits of state surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

The amounts below are classified by Governmental Accounting Standards Board Statement No. 40 in the following category:

Cash on the balance sheet consists of the following:

Checking and savings accounts	\$ <u>2,306</u>
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CLINTON AREA TRANSIT SYSTEM

NOTES TO FINANCIAL STATEMENTS - Continued

SEPTEMBER 30, 2005

NOTE 2: CASH - Concluded

Deposits are carried at fair market value. The Transit is authorized to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations. Investments can also be made in U.S. bonds and notes, certain commercial paper, U.S. government repurchase agreements, bankers acceptances and mutual funds, and investment pools that are composed of authorized investment vehicles.

At September 30, 2005, the Transit's cash and cash equivalents were classified as follows:

Insured	\$ <u>2,306</u>
Uninsured and uncollateralized	\$ <u> </u>

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The Transit does not have a deposit policy for custodial credit risk. As of September 30, 2005, none of the Transit's bank balance of \$5,917 was exposed to custodial credit risk.

Uninsured and uncollateralized	\$ <u> </u>
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NOTE 3: DUE FROM FEDERAL AND STATE GOVERNMENTS

Clinton Area Transit System receives funding from the U.S. Department of Transportation under Section 5311 Operating Grants. The computation of the amount due from the federal government as of September 30, 2005, is as follows:

Net eligible expenses	\$ 430,283	
Funding rate	<u>12.40%</u>	
Section 5311 revenue	53,355	
Funding received	<u>(38,340)</u>	
Balance due from year ended September 30, 2005		\$ 15,015
Balance due from Capital Grant – 5309/z8		44,559
Balance due from RTAP		<u>644</u>
Due from federal government		<u>60,218</u>

CLINTON AREA TRANSIT SYSTEM
NOTES TO FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2005

NOTE 3: DUE FROM FEDERAL AND STATE GOVERNMENTS - Concluded

Clinton Area Transit System receives funding from the State of Michigan for the State of Michigan Operating Assistance Program. The computation of the amount due from the State of Michigan under the Operating Assistance Agreement as of September 30, 2005, is as follows:

Eligible costs	\$ 435,283	
Funding rate	<u>38.437574%</u>	
Funding earned	167,312	
Funding received	(<u>154,696</u>)	
Balance due from year ended September 30, 2005		\$ 12,616
Balance due from Capital Grant – 5309 z8		11,140
Balance due from prior year		5,865
Balance due from Project Zero grant		<u>6,151</u>
Due from state government		<u>35,772</u>
Due from state and federal government		\$ <u>95,990</u>

NOTE 4: CAPITAL ASSETS

A summary of the Transit's capital assets at September 30, 2005, follows:

	BALANCE SEPTEMBER 30, 2004	ADDITIONS	DELETIONS	BALANCE SEPTEMBER 30, 2005
Vehicles	\$ 613,576	\$ 55,699	\$	\$ 669,275
Equipment	<u>17,257</u>	<u>23,001</u>	<u>1,000</u>	<u>39,258</u>
Total	630,833	78,700	1,000	708,533
Less: accumulated depreciation	<u>491,402</u>	<u>61,356</u>	<u>1,000</u>	<u>551,758</u>
Net property and equipment	\$ <u>139,431</u>	\$ <u>17,344</u>	\$ _____	\$ <u>156,775</u>

The depreciation expense was \$61,355 for year ended September 30, 2005.

CLINTON AREA TRANSIT SYSTEM
NOTES TO FINANCIAL STATEMENTS - Continued
SEPTEMBER 30, 2005

NOTE 5: SHORT-TERM DEBT

The Transit uses a revolving line of credit for \$80,000 to cover potential cash flow shortages. Short-term debt activity for the year ended September 30, 2005, was as follows:

	BEGINNING BALANCE	DRAWS	REPAYMENTS	ENDING BALANCE
Line of credit	\$ <u>40,500</u>	\$ <u>83,100</u>	\$ <u>51,700</u>	\$ <u>71,900</u>

NOTE 6: COMPENSATED ABSENCES

Paid leave time is earned in varying amounts depending on an employee's classification and the number of hours worked. A maximum of forty (40) hours of paid leave time may be carried over to the subsequent year.

Full time employees can earn one hundred twenty (120) hours of paid leave time per year. Leave time is accrued at a rate of 4.616 hours per pay period. Part time employees earn two (2) hours of paid leave time for any pay period in which at least forty (40) hours are worked.

Accrued sick and vacation payable at September 30, 2005 was \$2,701.

NOTE 7: RETIREMENT PLAN

The Clinton Area Transit System employees participate in a Simple IRA Plan, which became effective on May 2, 2002.

All Transit System employees who are expected to receive at least \$5,000 in compensation for the calendar year are eligible to participate in the plan. The Transit is required to pay contributions to the plan that match the participant's contribution up to a maximum of three (3) percent of employee compensation. Participants may contribute up to one hundred (100) percent of their salary, up to the IRS maximum.

For the year ended September 30, 2005, the Transit contributed \$3,642 to the retirement plan. The Transit had a total payroll of \$276,719 and covered payroll of \$143,438.

NOTE 8: RELIANCE ON FUNDING SOURCES

The Transit receives a majority of its support from state and federal grant revenues. A significant reduction in the level of this support, if it were to occur, would have an effect on the Transit's programs and activities.

CLINTON AREA TRANSIT SYSTEM
NOTES TO FINANCIAL STATEMENTS - Concluded
SEPTEMBER 30, 2005

NOTE 9: RISK MANAGEMENT

The Clinton Area Transit System is a member of the Michigan Transit Pool Self-Insurance Pool ("Pool") established pursuant to an Intergovernmental Agreement entered into by the member Transit Agencies and Authorities.

This Pool was established for the purpose of making a self-insurance pooling program available for Michigan Transit Agencies and Authorities, which includes, but is not limited to, bodily injury liability, property damage liability, and personal injury liability related to vehicle operation of the Clinton Area Transit System.

The Clinton Area Transit System pays an annual premium to the Pool for this coverage. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums.

The Clinton Area Transit System continues to carry commercial insurance for employee helath, workers' compensation, and other insurance including general liability and commercial building insurance.

Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three (3) fiscal years.

NOTE 10: CONTINGENT LIABILITIES

Under the terms of various federal and state grants, periodic compliance audits are required and certain costs may be questioned, allowed, or disallowed, which could result in funds being returned and/or received from grantor agencies.

NOTE 11: PROPERTY TAXES

In August, 2005, the citizens of Clinton County passes a millage for operational purposes. The totals mills levied in December, 2005 will be .14 mills. Expected property tax collections are \$284,796.

SUPPLEMENTARY INFORMATION

CLINTON AREA TRANSIT SYSTEM
STATEMENT OF OPERATING REVENUES
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Passenger fares	\$ 70,017
Contract rides	<u>90,320</u>
 TOTAL OPERATING REVENUES	 \$ <u><u>160,337</u></u>

CLINTON AREA TRANSIT SYSTEM
STATEMENT OF OPERATING EXPENSES BY CATEGORY
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	OPERATIONS	MAINTENANCE	GENERAL ADMINISTRATION	TOTAL
Labor				
Operator's salaries and wages	\$ 133,457	\$	\$ 4,120	\$ 137,577
Other salaries and wages	29,268	80	62,401	91,749
Dispatcher's salaries and wages	43,846			43,846
Fringe benefits				
Other fringe benefits	20,787	32	22,275	43,094
Retirement	1,661		1,981	3,642
Contractual services				
Advertising fees			5,064	5,064
Audit cost			5,000	5,000
Other services	8,979	11,019	5,071	25,069
Materials and supplies consumed				
Fuel and lubricants	40,172			40,172
Tires and tubes	2,744			2,744
Other materials and supplies	3,173	18,763	3,687	25,623
Utilities	2,713		5,283	7,996
Insurance	19,246			19,246
Other insurance	449		9,953	10,402
Taxes and fees	318		756	1,074
Miscellaneous expenses				
Travel and meetings			1,864	1,864
Association dues			1,034	1,034
Other miscellaneous expenses			557	557
Interest expense			1,691	1,691
Operating leases and rentals			6,579	6,579
Depreciation	61,356			61,356
TOTAL OPERATING EXPENSES	\$ 368,169	\$ 29,894	\$ 137,316	\$ 535,379

CLINTON AREA TRANSIT SYSTEM
STATEMENT OF NONOPERATING REVENUES - LOCAL
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Local operating assistance	
Advertising	\$ 5,740
Local contribution	40,000
Miscellaneous	12,419
Interest earnings	<u>5</u>
 TOTAL NONOPERATING REVENUES - LOCAL	 \$ <u><u>58,164</u></u>

CLINTON AREA TRANSIT SYSTEM
STATEMENT OF NONOPERATING REVENUES - STATE AND FEDERAL
FOR THE YEAR ENDED SEPTEMBER 30, 2005

State of Michigan Grants	
Formula operating assistance (ACT 51)	\$ 167,312
Adjustment of prior year reimbursement	3,744
Project Zero	36,532
Adjustment of prior year reimbursement	(141)
Capital grants-5309	15,740
Total State Grants	<u>223,187</u>
Federal grants	
U.S.D.O.T. operating grant - Section 5311	53,355
Adjustment of prior year reimbursement	788
Capital grants-5309	62,960
R.T.A.P.	644
Total Federal Grants	<u>117,747</u>
 TOTAL NONOPERATING REVENUES - STATE AND FEDERAL	 \$ <u><u>340,934</u></u>

CLINTON AREA TRANSIT SYSTEM
STATEMENT OF NET ELIGIBLE EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	FEDERAL SEC 5311 REVENUE	STATE OPERATING ASSISTANCE	PROJECT ZERO
OPERATING EXPENSES			
Labor	\$ 252,510	\$ 252,510	\$ 20,662
Fringe benefits	43,164	43,164	3,572
Contractual services	32,454	32,454	2,679
Materials and supplies	63,177	63,177	5,362
Utilities	7,359	7,359	637
Insurance	26,999	26,999	2,649
Taxes and fees	981	981	93
Miscellaneous	3,195	3,195	260
Interest	1,556	1,556	135
Leases and rentals	6,096	6,096	483
Depreciation	58,902	58,902	2,454
TOTAL OPERATING EXPENSES	<u>496,393</u>	<u>496,393</u>	<u>38,986</u>
LESS INELIGIBLE EXPENSES			
Audit fee	5,000		
Short term interest expense	1,556	1,556	
Association dues	8	8	
RTAP	644	644	
Depreciation	58,902	58,902	2,454
TOTAL INELIGIBLE EXPENSES	<u>66,110</u>	<u>61,110</u>	<u>2,454</u>
NET ELIGIBLE EXPENSES	<u>\$ 430,283</u>	<u>\$ 435,283</u>	<u>\$ 36,532</u>
Maximum Section 5311 reimbursement 12.40% of \$ 430,283, not to exceed \$53,355	<u>\$ 53,355</u>		
Maximum State operating assistance 38.437574823% of \$435,283 not to exceed \$167,312		<u>\$ 167,312</u>	
Maximum Project Zero contract 100% of \$36,532 not to exceed \$36,532			<u>\$ 36,532</u>

CLINTON AREA TRANSIT SYSTEM
STATEMENT OF MILEAGE DATA (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	PUBLIC TRANSPORTATION MILEAGE	PROJECT ZERO MILEAGE	TOTAL
Demand Response Vehicle Miles			
First Quarter	\$ 67,883	\$ 6,150	\$ 74,033
Second Quarter	66,370	6,524	72,894
Third Quarter	61,446	3,290	64,736
Fourth Quarter	<u>82,040</u>	<u>5,184</u>	<u>87,224</u>
Total demand response vehicle miles	<u>\$ 277,739</u>	<u>\$ 21,148</u>	<u>\$ 298,887</u>

NOTE - The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

CLINTON AREA TRANSIT SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

FEDERAL AND STATE GRANTOR/PASS THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH GRANTOR'S NUMBER	PROGRAM AWARD AMOUNT	TOTAL SYSTEM EXPENSES
FEDERAL				
<u>U.S. Department of Transportation</u>				
Passed through MDOT				
Operating Assistance - Section 5311				
FY 04-05	20.509	2003-0095/Z3	\$ 53,355	\$ 53,355
Adjustment of prior year			788	788
RTAP training funds	20.509		644	644
Capital grant-5309	20.500	2002-0095/Z6	18,401	18,401
Capital grant-5309	20.500	2002-095/Z8	44,559	44,559
TOTAL FEDERAL AWARDS			<u>117,747</u>	<u>117,747</u>
STATE				
<u>Michigan Department of Transportation</u>				
Operating Assistance - ACT 51				
FY 04-05	N/A	N/A	167,312	167,312
Adjustment of prior year			3,744	3,744
Capital grant-5309	20.500	2002-0095/Z6	4,600	4,600
Capital grant-5309	20.500	2002-095/Z8	11,140	11,140
			<u>186,796</u>	<u>186,796</u>
<u>Michigan Department of Health and Human Services</u>				
Passed through Michigan Family Independence Agency and MDOT				
Project Zero	93.558	N/A	36,532	36,532
Adjustment of prior year			(141)	(141)
			<u>36,391</u>	<u>36,391</u>
TOTAL STATE AWARDS			<u>223,187</u>	<u>223,187</u>
TOTAL FEDERAL AND STATE AWARDS			<u>\$ 340,934</u>	<u>\$ 340,934</u>



Layton & Richardson, P.C.

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Clinton Area Transit System
St. Johns, Michigan

We have audited the financial statements of the business-type activities of Clinton Area Transit System as of and for the year ended September 30, 2005 which collectively comprises the Transit's basic financial statement and have issued our report thereon February 10, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether financial statements are free of material misstatement, we perform tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of the financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Layton & Richardson, P.C.
Certified Public Accountants

East Lansing, Michigan
February 10, 2006

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Certified Public Accountants

LETTER OF COMMENTS RECOMMENDATIONS

Board of Directors
Clinton Area Transit System
St. Johns, Michigan

We have recently completed our audit of the records of the Clinton Area Transit System for the year ended September 30, 2005. As part of our audit, we made a study and evaluation of the Organization's system of internal accounting controls and procedures to the extent we considered necessary solely to determine the nature, timing and extent of our auditing procedures. Accordingly, we do not express an opinion on the system of internal accounting control taken as a whole.

Although we did not observe any material errors or weaknesses in accounting or financial management, the following recommendations are intended to improve the efficiency and effectiveness of control procedures:

PRIOR YEAR RECOMMENDATIONS

CASH DISBURSEMENTS

Some invoices are not approved before payment and also not properly cancelled. We recommend that approval signature, date paid, general ledger account and check number are written on each invoice to be properly cancelled. Also, all voided checks should be stamped "void" and on the signature line. This will make it easier to trace disbursements and to verify payment.

Accounts payable checks are returned to the preparer for mailing after they are signed. We recommend that after the accounts payable checks are signed, they be given to someone independent of the accounts payable function for mailing. This will provide better controls in the cash disbursements area. **Management response: All invoices will be approved by the General Manager before payment is made. These recommendations are in the process of being implemented.**

CASH RECEIPTS

Supporting documentation, (such as copies of checks taken in) is sometimes not attached to the deposit ticket. We recommend that copies of all checks taken in and all driver signed manifests be attached to deposits. We also recommend that the deposit slip be prepared by someone independent of cash receipts and accounts receivable records. This will provide better internal control over cash since cash receipts are not issued with every receipt.

Cash receipts were not used in sequential order. We recommend that all prenumbered cash receipts be used in order. **Management response: Drivers are now required to sign all manifests before turning in to the bookkeeper. Also a person independent of accounts receivable function will open mail and prepare daily deposit.**

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PRIOR YEAR RECOMMENDATIONS – Concluded

PAYROLL

During the testing of payroll, we noticed minutes on the time cards are not being kept consistently. Some of the payroll checks are being kept on quarter hour format, while other checks are being calculated on a per minute basis which is leaving a variance of total time worked. We recommend that all timesheets be kept in a the same way for each hourly employee. **This has been implemented.**

It was also noted during our audit that the person preparing the payroll checks is also the person distributing them after they are signed. We suggest that in order to provide better payroll controls, the payroll check preparer not get the paychecks back after they have been signed. **This recommendation will be implemented during the current year.**

During our audit testing, we noted that not all W-4's were accounted for in the personnel files. This prevented us from testing the federal and state withholding calculations on some employee's paychecks. We recommend that each payroll file contain a current federal and state W-4 along with any other payroll deductions. This will provide better controls when it comes to implementing payroll changes. **Management response: This is in the process of being implemented.**

GENERAL

Blank check stock is being kept in an unlocked filing cabinet. We recommend that the check stock be locked up at all times when not in use. This will help in fraud prevention. **Management response: This has been implemented.**

We also recommend that the Board review and lower the cash disbursement authorization for the General Manager amount from \$10,000 to \$5,000. We feel that the lowered amount provides more controls necessary for the Organization. **This recommendation was passed by the Board to \$5,000.**

We recommend that bank statements be received by the Treasurer of the Board. They should review and approve the bank statement and outstanding checks before it gets reconciled. We also recommend that when performing bank reconciliations, all outstanding checks older than six months be investigated. These recommendations will improve internal controls over cash. **This recommendation was passed by the Board to review, on a quarterly basis, all bank reconciliations prepared by the general manager.**

CURRENT YEAR RECOMMENDATIONS

CASH DISBURSEMENTS

During our audit testing, we noted that on two cash disbursements, the check amount did not match the invoice amount and no explanation was on the invoice. We recommend that all payments match the invoice amount unless a clear explanation is included with the file. **Management response: This is in the process of being corrected.**

We noted in several instances, a receipt was provided for reimbursement without a listing of the articles purchased or an explanation of the expense on credit card statements. We recommend that any receipt presented for reimbursement be supported with an itemized statement from the vendor or a sufficient statement from the employee detailing the items purchased and approved by the General Manager and the Board. **Management response: This is in the process of being corrected.**

During our audit testing, we noted that one voided check could not be found. We recommend that checks that are voided be properly defaced and filed with the bank statements. **Management response: This is in the process of being corrected.**

CURRENT YEAR RECOMMENDATIONS - Continued

CASH DISBURSEMENTS - Concluded

We noted during our audit testing two instances of incorrect account numbers on invoices. The expenses were booked to the correct account. We recommend that the account number on invoices be corrected when entered to an account other than the one written on the invoice. **Management response: This is in the process of being corrected.**

GENERAL

Bank Reconciliation

We noted during the audit that the bank reconciliations are not being reconciled to the general ledger. We recommend that the monthly bank reconciliation agree to the general ledger. This will help ensure the accuracy of the cash accounts on a monthly basis. **Management response: This is in the process of being implemented.**

General Ledger Accounts

Our audit also included a review of accounts 50399-Other Services and 50499-Other Materials and Supplies. These accounts receive "miscellaneous" type expenses. These accounts should be minimal in the quantity of transactions and total expense. However, these accounts contained numerous transactions and account for large amounts of expense. We recommend management establish additional specific accounts as appropriate. **Management response: This is in the process of being implemented.**

PAYROLL

During our audit, we noted that pay rate authorizations were not noted in the employee files. We also noted differences between employees' authorized withholding and the withholding in the payroll system. We recommend that a file be established for each employee and that a written pay rate authorization be placed in each file. We further recommend that tax withholding forms (federal, state and local if applicable) and other withholding authorizations (AFLAC) be placed in the file. This will improve the controls over payroll.

During our audit, two payroll check stubs and time sheets were not found in the files. We recommend that check sheet system where a list is prepared for all employees with time sheets for the pay period and attached as a facing page for the pay periods' time sheets. This system will strengthen the control over the payroll records.

During our audit, we noted that the 2002 version of the federal form W-4 was still being used. We recommend that the form be replaced with the current year version. Also each employee should complete a W-4 for the State of Michigan. **Management response: All of these recommendations are in the process of being implemented.**

CASH RECEIPTS

During our audit, we noted lack of segregation of duties in the cash receipt area. During our testing, we noted many instances where the drivers manifest detail did not agree to the drivers log and to the amount of the daily deposit. It also appears that pass cards were not sold for the correct amount. We recommend that procedures be put into place to ensure the driver's manifest and drivers log agree to the daily deposit. This would include training each driver on how to fill out each form correctly. Also, the drivers log should be updated for the correct price of all pass cards. **Management response: This has been implemented.**

CURRENT YEAR RECOMMENDATIONS - Concluded

CASH RECEIPTS – Concluded

Additionally, we recommend that the bus drivers' cash be locked or kept in a secure location on the bus until the end of the driver's shift. We recommend someone independent of reconciling the deposit and entering the cash receipts into the computer system take the deposit to the bank.

We noted during our audit that receipts are given to customers only when the customer asks for a receipt. We recommend a receipt be given to the customer even when the customer does not ask for one. The receipts should be given in numeric order. This will improve documentation of cash receipts and thereby will improve controls over cash receipts.

We noted during our audit that deposits are not made daily. We recommend deposit be made daily regardless of the amount of the deposit. This will increase controls over cash receipts.

We are grateful to the Organization's management and employees for the assistance and cooperation that we received during the audit, and we thank them.

Very truly yours,

A handwritten signature in cursive script that reads "Hayton & Richardson, P.C.".

Certified Public Accountants

East Lansing, Michigan
February 10, 2006